SYNOPSIS OF THE THESIS TITLED

RECOVERY MANAGEMENT OF COMMERCIAL BANK LOANS TO SMALL SCALE INDUSTRIES-A STUDY IN DAKSHINA KANNADA AND UDUPI DISTRICTS

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1. INTRODUCTION:

A vibrant and efficient financial system is vital for fostering rapid industrial development in a market economy. The banking sector is the most important segment of the financial system in a developing country like India. The provision of bank loan stimulates demand for industrial goods and helps in expansion of industrial sector. Thus, the more efficient the financial system of an economy, the higher would be the investment rate and likewise the output and employment growth rate of the economy. The banking sector in India has remained highly regulated since the nationalisation of banks in 1969. It helped to provide an initial thrust on the expansion of banking, especially in rural areas and increased access to credit to priority sector like agriculture, small scale industries and weaker sections of the society. This directed priority sector lending at concessional rate of interest to the hitherto neglected segment of the society, swelled demand for bank loan from such borrowers.

Banks are the custodians of public deposits and purveyors of credit. Banking business is mainly that of borrowing money from the public and lending it to the needy persons and business at a premium. Lending of money involves credit risk. When the loans and advances made by the banks and Financial Institutions (FIs) turnout as non productive, non remunerative then they will become non-performing assets (NPAs). Non-performing asset is one which ceases to generate income for the bank. According to prudential accounting norms the guiding principle is that the income on NPA should not be recognized on accrual basis and should be treated as income only when it is actually received. In order to improve the financial health of banking system, banking sector reforms have been introduced in 1992. The committee on financial sector reforms advised to conform to norms relating to asset classification, capital adequacy, income recognition and adequate provisioning not only to ensure transparency in financial position but also to enable the banks to manage their assets more efficiently. The Narasimham committee on banking sector reforms has rightly expressed concern over the erosion in the quality of assets of which Non Performing Assets (NPAs) constitute bulk.

In India, small scale sector is recognised by the Government of India under priority sector, as it contributes to rapid industrialisation and creation of employment. The SSI sector is an important component of industrial base of India and can be the driving force of its development efforts. Small industry is a prerequisite for balanced growth of the economy like India, which has the second largest population in the world. Small scale industries include the

traditional small industries besides the modern small scale industries. The most significant aspect of small industry development is that this sector has stimulated economic activity to far reaching height. The promotion and development of SSI sector, underline twin objectives, namely, employment generation and poverty alleviation. The small sector to a significant level is performing its part well in providing employment and thereby alleviation of poverty. It has instilled a sense of confidence among the small industrialists and the policy makers to rely on its strength (**Parameshwara and Raghurama2013**)[1].

Micro Small and Medium Enterprises Development (MSMED) Act was passed in the year 2006. SSIs come under MSMEs. The financial constraint faced by Indian SMEs is attributable to a combination of factors that are rooted in: (a) a legal/regulatory framework that makes recovery of bad loans to SMEs, bankruptcy and contract enforcement difficult for creditors; (b) institutional weaknesses, such as the absence of good credit appraisal and risk management tools, that increase banks' transaction costs in dealing with SMEs; (c) absence of reliable credit information on SMEs, and (d) lack of sufficient information about market credibility of the SME sector. This has made it difficult for lenders to assess risk premiums, creating differences in the perceived versus real risk profiles of SMEs which has resulted in untapped lending opportunities to SMEs **(Basu 2004)[2].**

Bankers' risk perception towards SMEs is heightened by the poor historical performance of SME loan portfolios, particularly loans made by the public sector banks, which account for more than 90percent of total lending to SMEs. While these banks have large SME portfolios, some report non-performing loans (NPLs) of more than 15percent of their total SSI loan portfolio, and are hence risk averse to expanding their SSI portfolios. The other group of banks engaged in SME lending are the newer, private sector banks. These banks view SME lending as a profitable business (they lend to SMEs in order to cross-sell fee-based products, while taking advantage of non-interest bearing deposits from SMEs). So far, their experience with SME lending has been quite good: A few of the new banks report NPLs lower than 2percent of their total SME portfolio. However, the NPL experience of the public sector banks with SME lending has made the newer, private sector banks cautious and risk averse to scaling-up SME lending, and they have concentrated their SME business mainly on channel-financing and cluster financing.

The significance of delivery of credit as a source of finance is that the use of credit would generate enough income to repay the loan with interest. However, generation of adequate

additional income has to be accompanied by willingness of borrower to repay the loan with interest. Failure to invest may result in non-generation of income. Furthermore, if loans are not repaid, the commercial banks lose both their interest income as well as principal amount. Good management of recovery of dues is, therefore, a complex issue encompassing economic and non-economic factors and has implications on profitability of the commercial banks

Delay in recovery of loans builds up NPAs which affect commercial banks adversely in their liquidity and impair their ability to service the immediate maturing liabilities. The blocked funds in NPAs increase the cost of financial intermediation since commercial banks resort to raising deposits and borrowings at a higher cost as a measure to minimize the imbalance between cash outflow and cash inflow arising out of the NPAs. This has an adverse impact on the profitability of banks both in the short-run and long run. The efficiency of commercial banks as a financial intermediary depends to a great extent on timely recovery of loans**. (Sharma 2001)**[3]

Recovery is a key to the stability of the banking sector. It is also linked to the bank's interest margin. It must be recognized that cost and recovery management supported by enabling legal framework hold the key to future health and competitiveness of the Indian banks **(Singh2005)**[4]. No doubt, improving recovery management in India is an area requiring expeditious and effective actions in legal, institutional and judicial processes. Banks at present experience considerable difficulties in recovering loans and enforcement of securities charged with them. The existing procedure for recovery of debts due to banks has blocked a significant portion of their funds in unproductive assets, the value of which deteriorates with the passage of time.

The recovery and NPA management strategies adopted by the commercial banks are of three broad categories viz. preventive, curative strategies and drastic measures. While preventive methods are aimed at preventing the event of a default within the prescribed procedures such as selection of the eligible borrowers, financing only viable economic activities, making available need based finance without delay in an appropriate form, taking care of SSI accounts at post sanction stage, calling for regular financial and operational information from the borrower for monitoring purposes, having continuous dialogue with the borrower to know the prospects of business , difficulties being faced , offering solutions wherever possible and the like, the curative methods are aimed at ensuring recoveries once credit is due for

payment such as rephasement of loans to suit the revised income generation pattern of the borrowers so as to repay the dues of the bank as per the present capacity or cash generation, rehabilitation support, scaling down of the dues, waiver of legal action, write off, and deciding to lodge a claim with Deposit Insurance and Credit Guarantee Corporation and thereafter write off the balance amount. The drastic measures are filing recovery certificates under state Acts, filing suit in a civil court, filing case with recovery tribunal and so on **(Toor 1994)**[5].

2. **Implications of poor recovery management:** The poor recovery management of the banks has got the following implications
    - Average yield on advances, as per the new income recognition norms, based on recovery coupled with more provisions for bad debts will be very low.
    - The productivity would also be low as the branch staff would primarily be engaged in preparing large volume of returns and statements relating to irregular , overdue, non performing, protested, suit filed and decreed cases, in preparing history sheets for transferring the accounts to recalled advances, preparing proposals for filing of suits, waiver of legal action, compromises , write offs in preparing DICGC claim papers and the like
    - A large number of irregularities in the inspection reports of the bank branches are pointed out, which down grade the inspection rating of the bank branch and also consume time of the bank personnel in removal of such irregularities.
    - Branch managers are pre occupied with follow up of bad loans and other workload arising from such accounts, the staff may not find time to follow up the regular accounts. Some of these accounts , due to poor follow up may tend to become NPAs
    - There may be emergence of suicidal tendency of branch managers or the staff because of stress in lending and recovery.

It is important to remember that recovery management, be of fresh loans or old loans, is central to NPA management. Thus recovery management process needs to start at the loan initiating stage itself. Effective management of recovery and NPA comprises two pronged strategy. First relates to arresting of the defaults and creation of NPA thereof and the second is to handling of loan delinquencies. The tenets of financial sector urged the commercial banks to find out and adopt the strategies to manage their receivables.

3. STATEMENT OF THE PROBLEM:

It is true that commercial banks are playing a pivotal role in meeting the financial requirement of the SSIs. They act as a mediator between the government and SSIs. However it is observed that most of the SSIs are not able to repay the loans granted by the commercial banks in time. This may be due to various reasons, like siphoning off of funds, diversion of funds to more profitable units, wilful default, and delay in recovery of suit filed accounts which have deliberately made the unit sick. Commercial banks are faced with the problem of recovery even though there are debt recovery mechanisms. The delayed court decision, make the assets mortgaged for the loan to become out dated and scrap. It will not realize the full amount due. Hence the debt due cannot be recovered. Securitisation Act also is not effective in recovering the due from small scale sector. But at the same time promotion of small scale industry is very much essential to solve the major problems of our country and also for the balanced development of the region. Hence small scale industries should not be neglected and they must not be made to lag behind just for the reason of non availability of adequate and timely finance and sickness. The directed incremental lending to priority sector at a concessional rate of interest especially to SSIs has brought with it the problem of recovery. The bankers have provided loan facilities without exercising reasonable care while conducting proper scrutiny of the loan application and without assessing the purpose of loan. So it is felt that the commercial banks have to come forward to identify the reasons for the non repayment of loans and also to develop the suitable strategies to recover the loan granted to SSIs. Keeping in mind the issues related to lending and recovery of SSIs loans, this study on the topic "Recovery Management of Commercial Bank Loans to Small Scale Industries- A Study in Dakshina Kannada and Udupi districts" is carried out.

4. OBJECTIVES OF THE STUDY:

The present study on "Recovery Management of Commercial Bank Loans to Small Scale Industries- A Study in Dakshina Kannada and Udupi districts" has been carried out with the following objectives.

1. To analyse the growth of MSMEs in Dakshina Kannada and Udupi Districts**.(Fulfilled in chapter III)**
2. To examine the institutional framework for the development of SSIs**.(Fulfilled in chapter IV)**

3. To study the lending practices and recovery mechanisms of commercial banks with special reference to SSIs**.(Fulfilled in chapter V)**
4. To understand the problems associated with borrowing and repayment of SSIs loans. **(Fulfilled in chapter VI)**
5. To study the recovery problems faced by the bankers and also the mechanisms adopted to recover the dues. **(Fulfilled in chapter V)**
6. To suggest policy measures based on the findings to improve the existing system of management of recovery of SSIs loans**.(Fulfilled in chapter VII)**

5. HYPOTHESIS: Based on the literature review and our observations from the theory, following hypotheses were formulated and tested in the present study to fulfill the above objectives.

1. The recovery strategies are independent of the public and private sector banks
2. Recovery management is more effective in private sector banks
3. Improper utilisation of SSI loans by the borrowers is the major cause for the problem of recovery and creation of NPAs.
4. Lack of adequate credit and credit recovery from the debtors are the major reasons for the delay in repayment of loan.
5. Inadequate follow up is the major cause for the low profitability of the SSIs loans.
6. Loopholes in recovery Acts are the major reason for low rate of recovery
7. SARFAESI Act is more effective than any other methods of recovery from SSIs.
8. Banks make aware of NPAs and guide to remit the loan amount to avoid NPAs.

6. RESEARCH METHODOLOGY AND SAMPLING DESIGN: In view of unprecedented problems of lending to Small Scale Industries, their recovery has been a matter of great concern to Banks, financial institutions, RBI and the Government. The banks have been facing the problem of NPAs due to priority sector lending. The causative factors for the creation of NPAs may be internal or external. Therefore it is important to know the recovery problems, analyse them carefully and formulate suitable strategies to prevent them and NPAs. This study is basically aimed at Recovery management of commercial bank loans to SSIs. The present study is both exploratory and descriptive in nature. The study is based on field survey; with the help of a structured questionnaire and in the form of personal interviews with the owners of sample small scale units and the sample branch managers of Banks in the study districts. Investigation was made from the view point of both the small industrial entrepreneurs and the lending commercial banks.

6.1 Area of study

The erstwhile Dakshina Kannada District is the cradle of banking and has given birth to five major banks viz; Canara Bank, Corporation Bank, Vijaya Bank, Syndicate Bank and Karnataka Bank Ltd, of which Karnataka Bank Ltd., is the only bank in the private sector at present. The other four Banks were nationalised and are in the Public sector. Through the preliminary discussions with the bank officials it was found that banks have been facing the problem of recovery of loans made to SSIs in the region. Hence, for the purpose of the study, one public sector viz; Syndicate Bank (SB) and one private sector bank viz; Karnataka Bank Ltd (KBL) was selected. The questionnaires were given personally to the sample branch managers of Banks and sample SSI borrowers of these banks spread in the 5 taluks of Dakshina Kannada (Mangalore, Bantwal, Belthangady, Puttur and Sullia) and 3 taluks of Udupi districts (Udupi, Kundapura and karkala).

6.2 Sources of data

For the purpose of the study, both primary and secondary data were collected. The study is an empirical one based on the sample survey method. Primary data was collected through two separate predesigned questionnaires. Data relating to small scale industrial units was collected from entrepreneurs of sample small scale units. Data relating to the bankers was collected from officials of sample bank branches in the study area. In order to construct the questionnaires, separate discussions were conducted with knowledgeable persons like, Bank officials, experts in the field of banking, SSI field officers of the banks, Presidents of SSI

Associations and Government officials. However, secondary data was collected from the sources like Books on SSIs and Entrepreneurship, commercial bank lending to SSIs, RBI bulletin, Report on Currency and Finance, RBI Occasional Papers, District credit plans, publications of Ministry of MSMEs, Reports of Directorate of Industries and Commerce, Government of Karnataka and reports of lead Bank of the study districts. The researcher also used various sources of information like periodicals and journals related to the study for the purpose of understanding the basic concepts and review of literature pertaining to the study. The secondary data was incorporated to substantiate the empirical study wherever necessary.

6.3 Population and Sample size: The researcher has selected a sample of Two Banks viz; Syndicate Bank which is in the public sector and Karnataka Bank Ltd, a private sector bank for the purpose of the present study in order to make the study a representative one. The sample Size was determined by the researcher based on the formula given by **Yamane (1967)**[6] for simple random sampling .The sample size was determined by the researcher at 0.05 level of precision. The sample size formula is given below:

$$n = \frac{N}{1+N(e)^2}$$

Where 'n'= Sample size
'N'= Population size
'e'= The level of precision

In order to carry out the study on the recovery management practices adopted by the commercial banks, we have chosen Dakshina Kannada and Udupi districts as the study regions since they are the cradle of banking. We have also selected the sample SSIs functioning in both the districts which were financed by SB and KBL. Since the population size of branches of two selected banks and SSIs operating in the study area is large; we have used the formula given by Yamane to have a fair representation of sample size at 0.05 sampling error which is normally accepted. As per records of the banks the number of branches of SB and KBL were 129 and 52 respectively in the study areas. At 0.05 precision level the sample size which is determined with respect to SB and KBL was 98 and 46 branches respectively. However, the researcher has taken care to give equal representation to all the taluks of the two districts while selecting the branches of commercial banks and small scale units as sample. However, information could not be collected from all the sample size as some of the questionnaires were incomplete. In all, the researcher could collect the full information from 111 bank branches.

Small Scale Industrial units constitute another part of respondents. Total number of SSIs financed by the syndicate Bank was 12889 in Dakshina Kannada District and 11848 SSIs in Udupi districts, whereas in the case of KBL there were 1573 SSIs in Dakshina Kannada district and 383 SSIs in Udupi district financed by it. The sample size fixed by applying the above formula was 501. However, due to some of the sensitive questions the respondents could not answer all the questions. As a result finally researcher could be able to use only 466 questionnaires. The sample size of both the branches of banks and SSIs are presented below in table 1 and 2.

Table 1 Population and sample size of SSIs financed by the SB and KBL.

District / **Bank**	**Population size in Dakshina kannada**	**Population size in Udupi**	**Total Population size**	**Sample Size**	**Usable response**
Syndicate Bank	12889	11848	24737	394	366
Karnataka Bank Ltd	01573	00383	01956	107	100
Total	**14462**	**12231**	**26693**	**501**	**466**

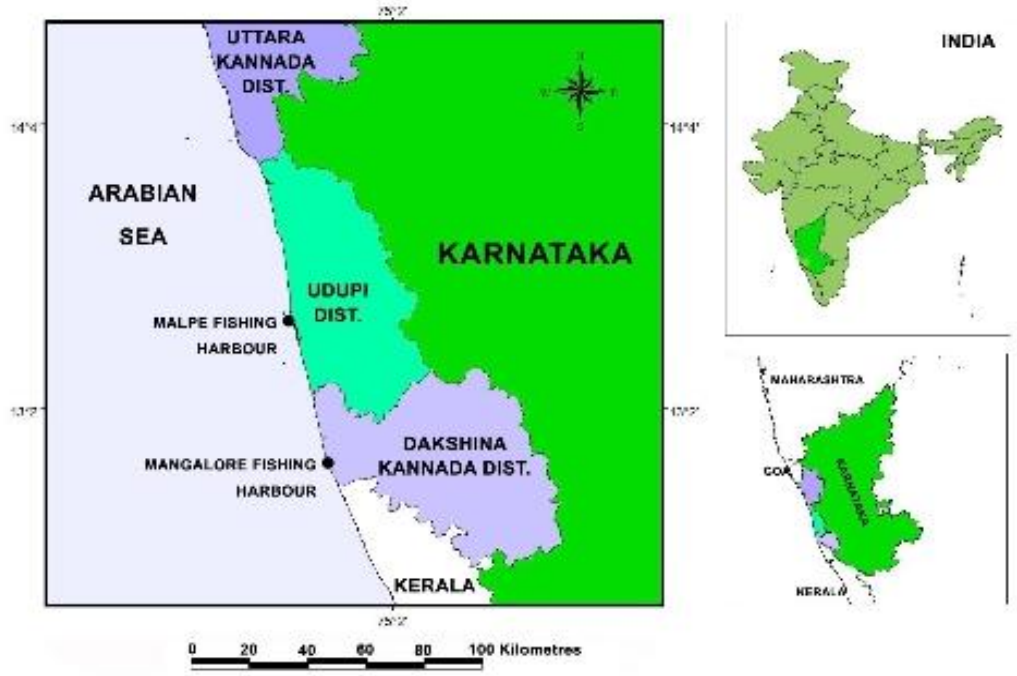
Source: Survey Data

Table 2 Population and sample size of Bank Branches in DK and Udupi Districts

Banks	**Population size**	**Sample size**	**Usable response**
SB	129	098	079
KBL	052	046	032
Total	**181**	**144**	**111**

Source: Survey Data

Figure 1 Map showing the study districts



6.4 Data processing and statistical analysis

Each question in the questionnaire was coded and the responses were fed to the computer using excel spread sheets and then was analysed using different statistical tools and techniques. In addition to the usual descriptive analysis some advanced statistical techniques were used in the present study. Descriptive statistics were used to assess the mean and standard deviations. The researcher has utilised the Statistical Package for Social Sciences (SPSS) to analyse and interpret the data which are presented in this study. Techniques like Chi-square test, Fisher's Exact test (Z) were applied. The researcher has also used the statistical tools of Factor analysis and 'Garrets Ranking technique' for the purpose of analysis. Further researcher also used Principal component analysis method to extract factors and Varimax Rotation (Kaiser's Normalisation) to get rotated factor matrix.

6.5 Garrets ranking technique

Garrett's ranking technique was used to analyse the following aspects of survey data:

- Difficulties in sanctioning loans to SSIs
- Factors responsible for NPAs

The order of merit given by the respondents for each factor/reason was converted into Ranks by using the following formula.

$$\text{Percent position} = \frac{100(Rij-0.5)}{Nj}$$

Where,

Rij= Rank for ith item by jth individual and

Nj= Number of items ranked by jth individual.

The per cent position of each rank was converted into scores with the help of tables given by **Garrett and Woodsworth (1969)**[7]. Then for each factor/reason, scores of individual respondents were added together and divided by the total number of respondents for whom scores were added. The mean scores for all the factors are ranked by arranging them in descending order.

7. SCOPE OF THE STUDY:

The research provides a comprehensive analysis of the growth and performance of MSMEs in India and Karnataka. The thesis begins with the theoretical framework relating to SSI loans and recovery measures of commercial banks through literature search. The study analysed priority sector advances in Karnataka, Dakshina Kannada and Udupi districts. Further the study also examined the recovery of advances and NPAs of SSIs through various mechanisms followed by the Syndicate Bank and Karnataka bank Ltd. The study has thrown light on various legal and non legal mechanisms available to the commercial banks for the recovery of SSIs dues. The thesis which is based on empirical study discussed the loan borrowed by the SSIs, their problems, recovery strategies followed by the banks, the problems faced by them during the course of recovery of loans and perceptions of both SSI units and the Bankers. The present study is confined to two coastal districts of Dakshina Kannada and Udupi of Karnataka state. The study borrowed a vast data from the reports of RBI, Ministry of MSMEs, Directorate of commerce and Industries and other research papers to provide a strong theoretical background and an attempt is made for its empirical application through appropriate methodology in this research. The researcher analysed the data from April 2001 to March 2012. However, for certain analysis, the data was available only for a few years.

8. SIGNIFICANCE OF THE STUDY:

The study on "Recovery Management of Commercial Bank Loans to Small Scale Industries- A study in Dakshina Kannada and Udupi districts" assumes greater significance. Since independence, the Government has protected the interest of small industries. A number of policies, schemes, and institutions were formulated and established for the promotion and development of small scale industries. Since liberalisation of Indian economy in 1991, the statistical evidences show that the growth of this sector has not been affected by economic liberalisation. By recognising the significant role played by the SSIs, the Government of India directed all the financial institutions to come forward with innovative schemes to help SSIs. However, the commercial banks which have helped SSIs through a number of schemes, observed that the financial assistance extended was not recovered upto their expected level. Therefore, a number of recovery mechanisms have been formulated by the RBI.

The recovery management programmes like Corporate Debt Restructuring (CDR), Recovery through Civil Courts, Debt Recovery Tribunals (DRTs) and the Securitisation Act have finally started yielding results. Net NPAs as percentage of net advances and total assets have declined from April 2000 to March 2003. However, banks are far from satisfied with their recovery management programmes. There have been instances where corporate bodies, have been served with notices under the Securitisation Act, have taken recourse to legal process and delayed the recovery process of banks **(Economic Survey 2003-04)[8].**

The percentage of NPAs in the MSME sector as a whole increased from 4.37% during 2010-11 to 4.98% during 2011-2012. The gross NPAs of all the Scheduled Commercial Banks (SCBs) which was 2.4% in March end 2009 increased to 2.5% in 2010, come down to 2.4% in 2011and increased to 2.9% in 2012. In absolute terms, Gross NPAs of SCBs increased from Rs 2.78 lakh crore in March 2009 to Rs4.66 lakh crore in 2012**(Bhattacharya 2013)[9]**

The measures adopted by the banking sector to recover the whopping non-performing assets (NPAs) have virtually failed as per a study conducted by the Reserve Bank of India (RBI). The banking regulator's study on the rising NPA level of commercial banks has observed that various steps like filing of suits in the civil courts , the Board for Industrial and Financial Reconstruction (BIFR) route for considering the financial feasibility for rehabilitation or otherwise and debt recovery tribunals have not had the desired effect in reducing the sticky loans of banks. In fact, in many cases the recovery process was further delayed.

Any loan granted by the commercial banks to SSIs must be utilised productively to create assets that will generate income continuously so as to repay the loan along with interest and also to take care of the borrowers. Failure to manage the investment of loan may result in non generation of income. If the loans are not repaid, the banks lose both the interest and the principal. Good management of recovery of dues is therefore, a complex issue encompassing economic factors and has implications for profitability and liquidity of the Banks and financial institutions.

Therefore, it is relevant to study to what an extent the commercial banks in Dakshina Kannada and Udupi districts have succeeded in achieving the objectives of financing SSIs and managing the recovery of these loans.

9. LIMITATIONS OF THE STUDY: It is imperative to emphasise certain limitations to which the study like this is subjected to. The study is an empirical work presented in a descriptive manner. The following are the limitations of the present study.

1. It was found difficult to convince the branch managers and the SSI borrowers from the branch about the purpose of the study during the period of data collection process.

2. The study is based on survey method using simple random sampling technique. Analysis was based on opinions of the sample respondents and observations. This may not reflect the exact reality.

3. The small scale industries borrowers and the defaulters of all public sector and private sector banks in Dakshina Kannada and Udupi districts were large in number. This study is confined only to the sample borrowers and sample branches of Syndicate Bank and Karnataka Bank limited in Dakshina Kannada and Udupi districts. Therefore the study may not reflect the true and fair opinions of all SSIs and branch managers of all banks in the study regions.

4. The researcher found variations in the data collected from the officials of the lead bank section and data collected from officials of the branches.

In spite of these limitations, a sincere attempt has been made to arrive at fairly objective, representative conclusion by making the best use of the data available to make the study purposeful.

10. LAYOUT OF THE THESIS:

The present thesis has been organised under seven chapters

Chapter -I: ***Introduction:*** This chapter deals with technical aspects of the study covering various aspects like introduction to the subject matter of research and other technical aspects such as statement of the problem, objectives of the study, hypothesis of the study, Research methodology and sample design, scope of the study, significance of the study, and limitations of the study. Finally, the layout of the thesis in the form of chapter classifications is also given.

Chapter-II: ***Review of Literature****:* This chapter deals with the review of previous theoretical and empirical studies undertaken on lending and recovery management practices of commercial banks relating to Small Scale Sector.

Chapter –III: ***An overview of small scale industries in India and Karnataka state*****:** This chapter provides an outline of MSMEs in India and Karnataka State which includes Growth and performance of MSMEs, Bank wise disbursement of loan under credit plan to MSMEs in DK and Udupi districts, Priority sector advances in DK and Udupi districts, NPAs of Public Sector and Private Sector banks in India, Karnataka and DK and Udupi districts. Further Recovery of NPAs accounts of SMEs under various mechanisms by Syndicate Bank and Karnataka Bank Ltd. is also dealt with.

Chapter IV: ***Recovery Management of Commercial bank loans to SSIs- A conceptual framework*****:** This chapter presents the detailed description of conceptual framework on the research study and also deals with the institutional framework setup by the government and the RBI for financing and formation of SSIs in India during the plan period and detailed description of steps involved in the process of lending , recovery and various legal and non legal mechanisms available for the banks to recover the dues.

Chapter -V: Recovery management of C*ommercial bank loans to Small Scale Industries- An empirical study –SSI Borrowers point of View:* This chapter forms the crux of the thesis, which analyses the primary data collected from the entrepreneurs of the sample SSIs related

to the loan borrowed from commercial banks, amount of dues outstanding, reasons for default and recovery measures taken by the banks and the like.

Chapter VI: ***Recovery management of commercial bank loans to Small Scale Industries: An empirical study - Branch Managers point of view:*** This chapter analyses the primary data collected from the sample branches of the commercial banks, which examines the recovery problems faced by the bankers and also the mechanisms adopted to recover the dues. In the beginning of this chapter the profile of the sample banks are also given.

Chapter –VII: ***Summary of findings, suggestions and conclusion*****:** It gives a capsule summary of the findings and discussions presented in the previous chapters. Further, recommendations, testing of hypothesis and suggestions also form the part of this chapter. The direction for further research based on the study is provided and finally conclusion is given.

11. KEY FINDINGS OF THE STUDY

General observations:

- 80% of the MSMEs are financed either by the commercial banks or entrepreneurs themselves. The units established only with the assistance of commercial banks and other financial institutions were 11%.
- The number of unregistered MSMEs are more when compared to registered MSMEs and very large number of MSMEs are owned and managed by men entrepreneurs.
- In spite of encouragement and support from the government many SSIs are facing the problem of finance and many banks are experiencing increase in NPAs.
- Majority of the banks recovered the loan amount through OTS/ Compromise settlement. The provisions of the other recovery mechanisms will work well if they are effectively used. Because of the loopholes in the legal and non legal measures followed by the banks, they find it difficult to recover and delay is found in recovery of dues.

SSI bank loan beneficiaries view:

- Majority of the SSI beneficiaries of bank loan set up SSIs because of market potential (80.5%); followed by desire to become independent and to take up challenges (79.0%), previous experience in the field (69.7%), financial incentive from the government (68.7%), experience and expertise in the technical field (62.9%), and availability of finance from banks at concessional rate of interest (50.2%).
- In Majority of the SSIs financed by SB and KBL the number of skilled employees are significantly less than the unskilled workers. Among the unskilled workers women constitute the majority and among the skilled employees, share of men employees is more. The number of skilled men and women employees was less in number.
- 73.8% of SB borrowers stated that the bankers do not suggest any bankable schemes, and 71.0% of borrowers of KBL expressed the same.
- 94.8 % of the SSI loan beneficiaries of SB and 88.0% of the SSI loan beneficiaries of KBL stated that there were more formalities to be fulfilled while obtaining loan and this is time consuming. Majority of the SSI beneficiaries of bank loan opined that the banks make borrowers to follow more formalities which are not required (90.13%) and the banks insist on more security (89.3%).
- 93.4% of the SSI loan beneficiaries of SB and 97.0% of the SSI loan beneficiaries of KBL opined that there is time lag between the submission of loan application and in sanctioning the loan. In majority of the branches of both the banks there is time lag of 3-4 months while sanctioning the loan. Further, banks sanctioned loan only after the unit started functioning which is longer than the period expected by them.
- 84.6% of the SSI loan beneficiaries of SB borrowed from friends and relatives and 96.7% of the loan beneficiaries of KBL financed out of their own funds. In majority of the sample branches of both the Banks adequate amount of loan required by the entrepreneurs was not sanctioned and entrepreneurs of SSIs managed to get adequate finance from different sources like own funds (87.2%), friends and relatives (82.8%) and made arrangements with the suppliers of raw materials.
- 12.7% of the borrowers of both the sample banks opined that they have diverted the loan borrowed from the banks for the purpose of SSIs to other purposes.
- 72.1% and 79.0% of the SSI loan beneficiaries of SB and KBL respectively revealed that they owed 2-3 loan installments. In both the bank's branches majority of the loan beneficiaries (73.6%) stated that they owed 2-3 loan instalments and 60% of the

defaulters stated that they were irregular in repayment of loan, 20.8% of defaulters revealed that they were wilful defaulters and 19.2% of the defaulters' loan was considered NPAs.

- 72.3% of the SSI loan beneficiaries of SB expressed that they were irregular due to competition from other units and 77.9% of the SSI loan beneficiaries of KBL were irregular due to non recovery of dues from their debtors. Majority of SSI loan beneficiaries of both the banks revealed that Problem of collection of receivables from the debtors (76.5%), competition from similar SSIs, large and medium scale industries (71.1%) and problem in the supply of input (58.0%) were the major reasons for irregularities in repayment of loan instalments.
- 59.7% of SSI loan beneficiaries of SB and 68.9% of the SSI loan beneficiaries of KBL revealed that they were sent notices and warned through phone calls as recovery action. In majority of the branches (61.4%) of both the banks the branch managers sent notices and warned through phone calls as recovery action. 30.5% of the defaulters stated that branch officials visited their units, 4.9% of the defaulters were facing legal action and 3.3% of the defaulters faced recovery agents sent by the bank.
- 91.4% of the SSI loan beneficiaries of SB approached the bank to request for the extension of time period for repayment and 74.0% of beneficiaries of bank loan of KBL approached the bank to request for the extension of time for repayment. Overall 87.9%, 80.6% and 77.4% of the defaulters, who approached the banks for compromise settlement, approached to relax the stipulated time for repayment, to request remission and to know the loan amount to be paid respectively.
- The defaulters (46.8%) who have not approached the branch managers for compromise settlement expressed following reasons for not approaching– 27.9% of borrowers assumed that bankers would not agree, 15.6% of borrowers stated that dispute was pending, 16.1% of borrowers stated that the bankers were keen to file the suit and 40.4% of borrowers have not revealed the reasons.
- 87.7% of SSI loan beneficiaries of SB and 83.0% of the SSI loan beneficiaries of KBL have not participated in the borrowers meet. It is clear that majority (86.7%) of the borrowers have not participated in the borrowers meet.
- 87.2% and 93.0% of SSI loan beneficiaries of SB and KBL respectively revealed that they were unaware of the severity of special tribunals/SARFAESI Act

- There is no significant difference in the opinions of the borrowers of both the SB and KBL with regard to: branches not made the borrowers to visit the branches several times for getting the loan($p=0.328>0.05$)., borrowers were given guidance to fill up the loan application and follow formalities incidental to the loan sanction ($p=0.197>0.05$)., Application is subject to legal, technical and financial scrutiny($p=0.613>0.05$), unnecessary queries were not put by the branch managers while processing the loan application ($p=0.475>0.05$), and the bankers sharing experience of other similar units for the advantage of the borrowers ($p=0.537>0.05$)before sanctioning loan.
- There is significant difference in the opinions of the borrowers of both the SB and KBL regarding the banks making borrowers aware of loan repayment ($0.014<0.05$), bankers providing guidance while preparing the project report ($p=0.017<0.05$) and the bankers were not bureaucrats and have professional knowledge ($p=0.035<0.05$) before sanctioning of loan
- There is highly significant difference in the opinions of the borrowers of both the SB and KBL about the various schemes suggested by the banks which are beneficial for them ($p=0.000<0.05$) and satisfaction with the present lending policy of bank ($p=0.003<0.05$).
- There is no significant difference in the opinions of the borrowers of both the SB and KBL regarding the loan amount disbursed in time in one lump sum ($p=0.207>0.05$), the bankers are not serious as long as the SSI borrowers' accounts are regular ($p=0.461>0.05$) and during any business upheaval the bankers reschedule the repayment ($p=0.544>0.05$).
- There is significant difference in the opinions of the borrowers of both the SB and KBL regarding bankers' visits to business units quite often ($p=0.014<0.05$) and their satisfaction with subsidy amount ($p=0.026<0.05$) after sanctioning of loan.
- There is highly significant difference in the opinions of the borrowers of both the SB and KBL regarding fixing loan repayment schedule scientifically ($p=0.003<0.05$), the banker's periodical visits to the units to ensure that the loan has been used productively ($p=0.001<0.05$).and periodical report sent to the bankers about the progress of the business ($p=0.000<0.05$) after sanctioning of loan.
- There is no significant difference in the opinions of the borrowers of both the SB and KBL regarding non-response to the banker's reminder notices and repayment of the due amount according to their convenience ($p=0.260>0.05$), occasions where bankers sent legal notices to recover the dues ($p=0.530>0.05$), the bankers supporting the borrowers

even if one instalment is due (p=0.845>0.05) and appointment of recovery agents by the banks (p=0.527>0.05) at recovery stage.

- There is significant difference in the opinions of the borrowers of both the SB and KBL regarding the periodical reminders sent by the bankers whenever the loan repayment is due(p=0.030<0.05), the bankers possible help and guidance whenever repayment is overdue(p=0.011<0.05)., discussion of business problems with the bankers(p=0.025<0.05), bankers making aware of debt recovery mechanisms (p=0.035<0.05).and the satisfaction with the attitude of bank officials while recovering the dues(p=0.025<0.05) at recovery stage.
- There is highly significant difference in the opinions of the borrowers of both the SB and KBL regarding the immediate response to legal notice (p=0.000<0.05), and making repayment at least in part (p=0.001<0.05), banks making the entrepreneurs aware of NPA norms and the banks guidance to the borrowers to remit a sum to avoid NPA (p=0.001<0.05) at recovery stage.

Branch Managers views:

- Out of 79branches of SB, 53branches and out of 32 branches of KBL, 22branches provided loans for SSIs engaged in manufacturing as well as services. Majority of the SSIs financed by the banks belongs to SSIs which are in the manufacturing as well as services sector (67.6%). 28.8% of branches of the banks have financed industries belonging to manufacturing sector and only 3.6 % of the branches have financed the Small Scale Industries in the service sector.
- All the branches of banks provided loans to SSIs run by the sole proprietors, 87.4% of the branches have provided finance to SSIs owned by the partnership firms and 27.0% of branches have provided financial assistance to joint stock company form of SSIs.
- 34 branches of SB and 18branches of KBL provided direct SSI advances under the provisions of the bank. Large number of the branches provided finance to SSIs under direct finance scheme (46.84%), 30 branches provided financial assistance under KVIC schemes and 29 branches provided finance under the schemes of DIC.
- 56 branches of SB and 19 branches of KBL had the experience of customers approaching the banks directly for financial assistance Majority of the borrowers approached the bank managers directly for financial support to their SSI units

(67.56%) and 26 branches had the experience of borrowers approaching the bank indirectly through the influence of local reputed persons and political leaders.

- 64 branches of SB and 28 branches of KBL were not having liaison officers. Majority of the branch managers (82.88%) expressed that their branches do not have separate liaison officer to monitor the SSI loans. It is clear from the study that bank managers alone have to take up the responsibility of lending and recovery of loans.
- 72 branch managers of SB and 30 branch managers of KBL have considered the viability of the project as an important criterion for providing loans to SSIs. Majority of the Branch Managers stated that they considered project report and viability of the project (92.4%) as important criteria for providing loans to SSIs, followed by initial capital contribution of the entrepreneurs (90.1%), location of the industry, cost of the project (71.2%) and recommendations (42.3%).
- 77 branch managers of SB observed functioning of the unit and 32 branch managers of KBL observed functioning of the unit and its utilisation of loan amount during post sanction scrutiny and appraisal. Majority of the branch managers (98.19%) keep a close watch on functioning of the units while carrying on post sanction scrutiny and appraisal. 105 branch managers revealed that they verify the utilisation of funds and 79 branch managers verified the records maintained by the entrepreneurs at the time of post sanction scrutiny and appraisal of the units.
- Majority of the branch managers (63.06%) expressed that they have the power to lend to SSIs up to Rs 40 lakh. 26 branch managers stated that they had the power to lend up to 50 lakh and 15 branch managers had the power to lend loans to SSIs up to Rs1 crore.
- 44 branch managers of SB and 17 branch managers of KBL suggested bankable schemes to the beneficiary entrepreneurs. It is observed from the study that 59 (53.2%) branch managers suggested bankable schemes to the beneficiary entrepreneurs and 52 (46.8%) branch managers haven't suggested bankable schemes.
- 79 branch managers of SB and 30 branch managers of KBL revealed that there is time lag between submission of loan application and loan sanction. Majority of the branch managers (109) revealed that there is time lag between submission of loan application and loan sanction. The analysis reveals that the reasons for delay in sanction of loan is due to time taken for technical appraisal of the project (55.0%),

time taken to bring different certificates from different departments (90.8%), shortage of staff (72.5%) and improper documents (80.7%).

- 61.3% of branch managers of SB and 68.8% of branch managers of KBL were influenced by the local politicians for lending to SSIs. Majority of the branch managers (70.2%) have observed that entrepreneurs approached the bank through influence from third party. 62.8% of branch managers received recommendations from the politicians on behalf of the SSIs loan applicants, 43.6% of branch managers received recommendations from the reputed persons in the region , 9% of branch managers received recommendations from government officials and 6% of branch managers received recommendations from the bank staff.
- Majority of the managers (98.19%) of both the banks expressed that along with the application for loan, they give importance for face to face discussion, electricity connection certificate (97.29%), and evaluation of the project report (96.39%). They also give importance for licence from local administration, security; follow up, rules and regulations.
- Major difficulties faced by the branch managers in granting loans to SSIs are assessment of creditworthiness (I Rank), to follow the guidelines strictly (II Rank) and large number of defaulters (III Rank)
- The major problems faced by the branch managers while dealing with the SSI borrowers are provision of inadequate security (Mean score 85.59%), non repayment of the principal (Mean score 80.01%), diversion of loans (Mean score 79.82%), wilful default and non maintenance of books of accounts (Mean score 77.48%), lack of knowledge of operations of the unit (Mean score 76.22%), under utilisation of working capital (Mean score 72.07%), and closing down of the SSI units due to sickness (Mean score 70.27%).
- 60 branch managers of SB and 24 branch managers of KBL, out of 84 branch managers opined that SSI lending is not profitable. The branch managers opined that due to lack of prompt repayment (percentage mean score 90.24%) by the SSI borrowers the fund is blocked for recycling of loan to other transactions; hence banker's profitability is reduced, followed by problem of recovery (percentage mean score 88.81%), more number of defaulters (percentage mean score 84.29%), inadequate supervision by the bankers (percentage mean score 82.62%), delay in legal proceedings and cost incurred for the legal proceedings (percentage mean score

72.14%), high cost of recovery (percentage mean score 71.67%), high overhead cost (percentage mean score 71.43%), and low rate of interest on loan (percentage mean score 65.71%). The overall impact of all the factors on the profitability of the bank was 78.10%.

- 93.7% of branch managers of SB revealed that they provide counselling services to the entrepreneurs, 71.9% and 68.8% of branch managers of KBL revealed that they conduct periodical meeting with the entrepreneurs and mutually discuss the progress and the problems of the entrepreneurs and provide counselling services respectively. Majority of the branch managers expressed that they provide counselling services whenever the SSI loan beneficiaries seek advice regarding the business. The branch managers are providing proper guidance to such entrepreneurs (86.5%) They also conduct periodical meeting with the entrepreneurs and mutually discuss the progress and the problems of the entrepreneurs (55.9%), organise training programme (32.4%) and provide marketing assistance to the entrepreneurs. They communicate the marketing avenues (33.3%) and provide technical assistance (16.2%) to the entrepreneurs.

- 87.3% of branch managers of SB and 100% branch managers of KBL made follow up of business by mere scrutiny of periodical statements submitted by the entrepreneurs to the bank and monitoring of SSIs. Majority of the branch managers stated that they conduct follow up and monitoring of the units by verifying the periodical statements sent by the entrepreneurs. 88 branch managers stated that they conduct follow up and monitor the loan through phone calls, 36 branch managers conduct follow up by verifying the books and documents maintained by the entrepreneurs and 20 branch managers conduct follow up through periodical visits and interaction with the entrepreneurs.

- Out of 79 sample branch managers of SB, 93.7% of branch managers noticed the misutilisation of loan. In the case of KBL, out of 32 sample branches, all the branch mangers noticed the misutilisation of loan. Majority of the branch managers (95.5%) opined that the loans were not utilised properly for which they were sanctioned. 81.1% of the branch managers expressed the cases of misutilisation of funds and stated that they personally visited the business of the borrowers, warned regarding the misutilisation of loan amount and non repayment of loan instalment in time.

64.2% of the branch managers called back the advances in such cases and 46.2% of the branch managers reported the matter to the higher authorities.

- 98.7% of SB branch managers stated that they have provided assistance or advice to the borrowers if they faced any problem in repaying the loan and were requested for the same depending upon the situations and problems. 96.9% of KBL branch managers provided assistance or advice to the entrepreneurs who have faced difficulty in repayment of loan. Majority of the branch managers (98.2%) stated that they have assisted the borrowers by rescheduling the loan repayment period, 86.2% of the branch managers provided assistance based on need of the situation, 65.1% of managers provided repayment holiday, 49.5% of the managers waived penal interest and 47.4% of the branch managers provided assistance as per government guidelines.
- 78.5% of branch managers of SB and 87.5% of branch managers of KBL appointed private agents for the recovery of loans. Majority of branch managers of both the banks (82%) took action as per Revenue Recovery Act, 90 branch managers sent recovery agents to recover the dues, 69 branch managers stated that they published the defaulters name list in the local news papers and in the bank notice board, 28 branch managers referred to recovery camp and 24 branch managers called borrowers to discuss during non business working hours in case of default.
- 69.5% of branch managers of SB and 81.3% of branch managers of KBL faced the hardship in recovery of loans. Majority of branch managers of both the banks (72.97%) faced hardship in recovery of loans. The hardships faced by the branch managers were delay in legal proceedings (97.5%), problem of realising the decreed debt (79.0%), mental assaults (59.3%), physical assaults (4.9%) and refereeing the cases to BIFR (3.7%).
- Most of the bank managers highlighted wilful default as the major cause for the low rate of recovery (percentage mean score of 91.50%), followed by loopholes in various machineries of recovery (percentage mean score of 90.60%), sickness of the units financed by banks (percentage mean score of 88.80%), misuse of funds (percentage mean score of 87.60%), lack of integrity of the borrowers (percentage mean score of 83.10%), low profitability of the SSI units (percentage mean score of 78.60%), under utilisation of the plant capacity by the SSIs(percentage mean score of 78.40%), loan availed to get subsidy from the government (percentage mean score of

76.80%), sub standard quality of material used by the SSIs and improper identification of sick unit(cases of rehabilitation support) (percentage mean score 76.0%), lack of consortium advances (percentage mean score of 67.40%), delay in loan sanction(percentage mean score of 64.00%), under financing (percentage mean score of 57.70%) and no assured market for the products of SSIs(percentage mean score of 57.50%) as the causes for low rate of recovery.

- 46.9% of the branch managers of both the banks stated that the notices were sent to the defaulters when two instalments became due for repayment. But there were also cases when notices were sent after more than three instalments were due.
- Majority of the branch managers of both the banks (82%) found irregularity in repayment of SSI loan instalments.
- 59.5% of branch managers issued notices to the defaulters 1-2 times, 22.5% of branch managers issued notices 3-5 times, 17.1% of branch managers issued notices 5-10 times and 0.9% of branch manager issued notices to the defaulters more than 10 times.
- 45.9% of branch managers had the cases of property seizure and 54.1% of branch managers did not have the case of property seizure. 44.3% of branch managers of SB reported that they had 1-2 cases of property seizure and 55.7% of branch managers had no cases of property seizure. 50% of branch managers of KBL had the cases of property seizure and 50% of branch managers didn't have the case of seizure of property.
- The position of NPA due to priority sector lending is more in SB compared to KBL and the position of NPA of both the banks showed downward trend from 2007 to 2011. The NPA position due to lending to SSIs showed downward trend and NPA due to SSIs lending is more in SB except in the year 2011.
- 40.6% of branch managers did not have the cases of compromise settlement, 32.4% of branch managers had 1-2 cases of compromise settlement and 27.0% of branch managers had 3-5 cases of compromise settlement.
- The responses of the branch managers regarding the action taken for recovery was: issuing notices and personal visit to the SSI borrowers units (97.3%), compromise settlement (95.5%), sent only notices (92.8%), sending bank staff for follow-up (87.4%) and legal proceedings (88.3%).

- Out of 79 sample branches of SB, 54.4% of branch managers expressed that they were having the defaulters against whom the suit was filed and 45.6% of branch managers did not have the cases of legal proceedings. In the case of KBL, out of 32 sample branches 62.5% of branch managers have the cases of defaulters against whom there were legal proceedings and 37.5% of branch managers didn't have such cases. Majority of the branch managers (56.8%) of both the banks have legal proceedings against the defaulters.
- Majority of the branch managers (91.9%) have opined that they require the services of the recovery agents for the effective recovery of the loan amount due.
- Majority of the (85.6%) branch managers had the experience of handling compromise settlement through Lok Adalaths.
- Majority (70.2%) of the branch managers opined that recovery through Lok Adalaths were effective
- Majority of the branch managers of both the banks (94.6%) opined that DRTs were better than civil suit.
- Majority of the branch managers (77.5%) opined that the existing system of audit helped only in checking the defaults and 46.8% of branch managers opined that it helped in recovery management.
- SARFAESI Act was highly effective in recovery of loans from the defaulters.
- 58.6% of branch managers felt that by fixing the recovery target the recovery performance could be improved and 41.4% branch managers opined that by fixing the recovery target the recovery performance couldn't be improved.
- 49.5% of branch managers opined that the law of limitation would give scope for the loan to become time barred and 36% of branch managers opined that the law of limitation compels the banker to file suit in case of default for recovery of bank loan.
- There is no significant difference in the opinions of the branch managers of both the banks regarding the lending practices before sanctioning the loan. However we found significant difference in the opinions of SB and KBL branch managers regarding guidance given to customers to fill up the loan application forms and to follow formalities incidental to loan sanction($p=0.020<0.05$), guidance to customers while preparing the project report($p=0.041<0.05$), and bureaucratic and professional approach of the branch managers($p=0.047<0.05$).

- There is significant difference in the opinions of branch managers of SB and KBL regarding the intimation of loan instalment and interest due ($p=0.001<0.05$), and sharing of business and personal problems of borrower with the bankers ($p=0.002<0.05$) after sanctioning the loan.
- There is significant difference in the opinions of the Branch managers regarding sending periodic reminders whenever the loan instalment is due ($p=0.041<0.05$), appointment of recovery agents and filing suit in the court when the borrowers fail to give response to the notice ($p=0.015<0.05$) at recovery stage.

12. TESTING OF HYPOTHESIS

Hypothesis 1

THE RECOVERY STRATEGIES ARE INDEPENDENT OF THE PUBLIC AND PRIVATE SECTOR BANKS

The data on recovery measures of bankers collected from sample borrowers of SB and KBL **(Table 5.25a chapter V)** reveals that out of 201 respondents of SB, 120(59.7%) of the respondents received notices and phone calls from the bank officials for repayment of loan, 66(32.8%) of the respondents informed that branch managers and officials visited the units and reminded and warned about the overdues , 5(2.5%) respondents were reminded through the recovery agents appointed by the banks and 10(5%) respondents were facing the legal actions from the bank for the non-payment of loan instalment. In the case of KBL, out of 45 respondents 31(68.9%) respondents received reminder notices and phone calls from the branch managers, 9(20%) respondents were reminded and warned through personal visit, 3(6.7%) respondents were reminded through recovery agents and 2(4.4%) respondents were facing legal proceedings in the court of law. Majority of the respondents were reminded and warned through reminder notices, phone calls and personal visits. It is clear from the chi-square test that the recovery measures taken by the bankers were independent of the public and private sectors banks. ($X^2=4.488$, d.f=3, $p=0.213>0.05$, NS). Therefore the research hypothesis "the recovery strategies are independent of the public and private sectors banks**",** is **accepted.**

Hypothesis 2

RECOVERY MANAGEMENT IS MORE EFFECTIVE IN PRIVATE SECTOR BANKS

The opinions of the branch managers regarding the recovery performance are more important from the point of view of study of recovery management. Their responses regarding the recovery performance will determine the effectiveness of various recovery measures followed by the bankers. The data regarding their response is presented **in Table 6.40 in the VI chapter.** Out of 79 sample branches of SB, 15(19%)branch managers rated average recovery performance, 28(35.4%) branch managers rated satisfactory recovery performance , 29(36.7%) branch managers rated good recovery performance and only 7(8.9%) branch managers rated recovery performance as excellent. Out of 32 sample branches of KBL, 5(15.6%) brnach managers rated average recovery performance , 9(28.1%) branch managers rated satisfactory recovery performance , 10(31.3%) brnach managers rated good recovery performance and 8(25%) branch managers rated the recovery performance as excellent. Overall out of 111 sample branches of both the banks 39(35.1%) branch managers rated that the recovery position is good , 37(33.3%) satisfactory, 20(18%) branch managers rated it as average performance and 15(13.5%) branch managers rated the recovery performance as excellent. The Mannwhiteny Test Z value p=0.145 which is greater than 0.05 which indicates that there is no significant difference in the opinions of the branch managers and the hypothesis **"Recovery management is more effective in private sector banks"** is **accepted.**

Hypothesis 3

IMPROPER UTILISATION OF SSIs LOANS BY THE BORROWER IS THE MAJOR CAUSE FOR THE CREATION OF NPAs

Garrets Mean Score method is adopted where the branch managers were asked to rank the various reasons responsible for the creation of NPAs. This is explained in **table 6.43 in chapter VI.** As per GMS, the branch managers of both SB and KBL, ranked I for the factor "Mismanagement of Funds", some entrepreneurs borrowed the loan for starting SSIs and diverted the loan amount for other purpose, wilful default ranked II by branch managers of both the sample banks, low income generation was ranked III by SB and IV by KBL, lack of follow up was ranked IV by SB and VI by KBL, lack of adequate finance was ranked V by SB and VII by the KBL, unscientific selection of the borrower was ranked VI by SB and III

by KBL, defective project appraisal ranked VII by both SB and KBL, lack of timely finance in adequate quantity was ranked VIII by SB and V by the KBL, socio political pressure ranked IX by branch managers of both the banks , non cooperation from the government agency ranked X by branch managers of both the banks, effect of ADRs ranked XI by the sample branch managers of both the banks and other factors were ranked XII by branch managers of both the banks . The above hypothesis was tested by applying Mannwhiteny test and the test result reveals that there is no significant difference in the opinions of the branch managers (Z=.232 p=.817>0.05, NS). The hypothesis, improper utilisation of SSI loans by the borrower is the major cause for the creation of NPAs, is accepted.

Hypothesis 4

LACK OF ADEQUATE FINANCE AND NON REALISATION OF RECEIVABLES FROM THE DEBTORS ARE THE MAJOR CAUSES FOR THE DELAY IN REPAYMENT OF LOAN

Out of 366 beneficiaries of SB, 315(86.1%) respondents, faced the problem of repayment due to non realization of accounts of the debtors in time, and 248(67.8%) respondents, faced the problem of repayment because of under financing due to which they could not undertake the activity properly. 205(56.0%) respondents, faced the problem of repayment due to accumulation of instalment amount due and lack of demand and 187(51.1%) respondents due to production and reduced earning **(table 5.21 in chapter V)**. Low moratorium period (150(41.0%)) and high cost of financing (112(30.6%)) are other reasons for non-payment of dues. 23(6.3%) respondents have not faced any problem in repayment of loan and 27(7.4%) respondents have not disclosed the reasons for non-payment of loan. In the case of beneficiaries of KBL, out of 100 sample entrepreneurs, 78(78.0%) revealed the reasons for non-payment are, the problem of non realization of debt in time, under financing (73(73.0%)), lack of demand for the product (54(54.0%)), high instalment due (51(51.0%)), low moratorium period (30(30.0%)), and high cost of financing (23(23.0%)). Further 10(10.0%) respondents have not faced any problem in repayment and 5(5.0%) respondents have not paid the amount due for other reasons. The hypothesis was tested by applying Mannwhiteny test which shows the result as Z=.000, p=1.000>0.05, NS. Hence the hypothesis, "**under financing and non realisation of accounts of the debtors are the major causes for the delay in repayment of loan" is** accepted.

Hypothesis 5

INADEQUATE SUPERVISION IS THE MAJOR CAUSE FOR THE NON PROFITABILITY OF THE SSIs LENDING

Table 6.59

Cause	Banks	N	Mean	SD	Mean (%)	Mannwhiteny test Z value	P value
Inadequate supervision	SB	60	4.15	0.799	83.00	0.260	0.795 NS
	KBL	24	4.08	0.881	81.67		
	Total	84	4.13	0.818	**82.62**		

Source: Survey data

The above table reveals that the mean score of the responses of the branch managers is above 4, which clearly indicates that they agree regarding inadequate supervision of SSIs after sanctioning of loans (**table 6.29 in chapter VI).** The Mannwhiteny test value Z=0.260, p=0.795>0.05 reveals that there is no significant difference in the opinion of the branch managers regarding the inadequate supervision of loan is the major cause for the non profitability of the SSIs lending. Therefore the hypothesis inadequate supervision is the major cause for the non profitability of the SSIs lending is accepted.

Hypothesis 6

LOOPHOLES IN RECOVERY ACTS ARE THE MAJOR REASON FOR LOW RATE OF RECOVERY

Table 6.60

	Bank	N	Mean	SD	Mean (%)	Mannwhitney test Z value	P value
Loopholes in recovery acts	SB	79	4.56	0.635	91.10	0.11	0.912 NS
	KBL	32	4.47	0.803	89.40		
	Total	111	4.53	0.685	**90.60**		

Source: Survey data

The data has been collected regarding various reasons for the low rate of recovery and presented in **table 6.36 in chapter VI.** Loopholes in the Recovery Act are one of the major reasons for the low rate of recovery (Mean 90.60%). The above table clearly indicates that the response rate of the branch managers is above 4, which shows that they highly agree that Loopholes in recovery acts are the major reason for low rate of recovery**.** The hypothesis

"Loopholes in recovery acts are the major reason for low rate of recovery" was tested by applying Mannwhiteny test, and the test result is Z=0.11, p=0.912>0.05, which indicates that there is no significant difference in the opinions of the branch managers. Hence, the hypothesis is accepted.

Hypothesis 7

RECOVERY THROUGH SARFAESI ACT IS MORE EFFECTIVE THAN ANY OTHER METHODS OF RECOVERY

The data regarding the effectiveness of SARFAESI Act was compared to other methods of recovery was collected and presented in **table 6.52, chapter VI.** Out of 79 sample branches of SB, 2(2.5%) branch managers opined that SARFAESI Act is not effective in recovery of dues, 13(16.5%) branch managers opined that it is effective and 64(81%) branch managers opined that SARFAESI Act is highly effective. In the case of KBL, out of 32 sample branches 4(12.5%) branch managers felt that it is effective and 28(87.5%) branch managers felt that it is highly effective. Overall out of 111 sample branches of both banks, 92(82.9%) branch managers opined that it is highly effective and 17(15.3%) branch managers opined that SARFAESI Act is effective in recovery of loans from the defaulters. There is no significant difference in the opinions of the branch managers regarding the effectiveness of SARFAESI Act (p=0.392>0.05). Therefore the hypothesis "**SARFAESI Act is more effective than any other methods of recovery"** is accepted.

Hypothesis 8

BANKS MAKE AWARE OF NPA NORMS AND GUIDE TO REMIT THE AMOUNT TO AVOID NPAS.

Table 6.61

	Bank	N	Minimum	Maximum	Mean	Std. Deviation	Median	Mean (%)	Mannwhitney test Z value	p value
Banks make borrowers aware of NPA norms	SB	366	1.00	5.00	2.58	1.09	2.00	51.69	3.44	.001
	KBL	100	1.00	5.00	2.98	1.13	2.50	59.60	HS	
Total		466	1.00	5.00	2.67	1.11	2.00	53.39		

Source: Survey data

The above table shows that the mean value of borrowers of SB and KBL is 2.58 and 2.98 respectively. This shows the level of disagreement (below 3points). This hypothesis is tested by applying Mannwhiteny test, which shows that the result Z=3.44, p=0.001<0.05. It indicates that there is highly significant difference in the opinions of the sample borrowers regarding the awareness created by the branch managers about the NPAs. Hence the research hypothesis **Banks make aware of NPAs and guide to remit the amount to avoid NPAs** is rejected.

13. SUGGESTIONS:

A few suggestions can be put forth based on the above findings of the study to improve and strengthen the existing recovery mechanism

- Banks should properly evaluate all loan applications and analyze the purpose and feasibility of the project. Bank staff should be properly trained in this regard. The bankers should go by the merit of the loan application and fulfillment of conditions and should not be influenced by any other recommendations.
- Banks must assess the need for setting up the SSI units and credit worthiness of the borrowers on an objective basis. Deserving entrepreneurs must be provided with loans for setting up the units. Bankers should visit the unit during the period of its construction and decide about the loan amount to be sanctioned based on work completion. Likewise, bankers should keep a close watch on the functioning of the unit so as to ensure income generation and recovery of loan.
- SSI borrowers may face the problem of implementation of their project due to non availability of adequate financial assistance. Banks should scientifically appraise the project, properly estimate the genuine financial needs and accordingly provide financial assistance. Bankable and viable proposals must be accepted for sanction of loans in adequate quantity. Proper care should be taken by the banks to see that the borrowers do not approach the expensive private financiers for loan due to inadequate assistance.
- Banks should provide timely finance in adequate amount to the SMEs If timely finance in adequate quantity is not made the completion of the SSI units will be delayed and in turn it leads to cost escalation and cost overrun. The units cannot

commence their business operations as per the scheduled time and this will affect the business of SSI units and consequently will lead to repayment problem.

- Most of the branch managers find the shortage of man power in their branches. Field visits, follow up, recovery and the like activities will be affected because of shortage of staff. Adequate staff must be given to the branches in order to take up additional workload apart from routine work.
- Misutilisation or diversion of loan by the borrowers will lead to the problem of unproductive utilisation of the loan for other purposes than for which it has been sanctioned which in turn will affect repayment of loan. The banks must improve the prospective skill of the borrowers through proper training and borrowers must be motivated to use the borrowed fund properly and to maintain the credit discipline.
- Branches should develop rigorous and flexible methods of credit appraisal and credit information system for quicker and effective decision.
- Whenever any SSI loan beneficiary is faced with the problem which may be beyond the control of management of the unit, the bank should immediately find out the possibility where by the unit can be brought back to normal health by giving some concessions like cut off in interest. Appropriate rehabilitation package be released in time.
- All employees of the bank should be involved in the recovery of NPAs. It is not enough for Branch Head to be a great team player, but it is equally important that he inspires others in the team with his/her brilliance and Togetherness Quotient for the recovery of NPAs.
- Skills and Competencies of employees need to be developed. Bankers should impart training to employees in Legal matters and Recovery measures. The Public Relations Skill (PR Skill), and communication skills of practicing bankers need to be developed to have a decisive impact on borrowers. It is an attitude towards critical aspect of NPA Management that will determine whether one can prosper or perish.
- NPA Management should be accepted and pursued as an organizational goal. Proactive culture should be developed in Legal Department of banks. Incentive schemes should be introduced for the staff members to speed up the process of recovery in branches. There should be close coordination between credit processing unit and credit monitoring unit.

- A healthy Banker Borrower Relationship should be ensured. Debt recovery will be much easier in a congenial environment. Assisting the borrowers in developing their entrepreneurial skill will not only establish a good relationship between the borrowers and banks but also help the bankers to keep track of their funds.
- As per the norms of Basel III, banks must obtain confidential reports from other banks and financial institutions about the borrowers' dues to know the financial transactions and credit worthiness.
- When Banks arrive at settlements with borrowers for repayment of their dues, consent orders are to be obtained from DRTs on pending recovery proceedings in terms of settlement. Some DRTs have taken the stand that they can only approve such settlement terms and banks have no powers to finalize the settlement terms. It is necessary to amend the law to bring it on par with the provisions of the Civil Procedure Code that requires the court to pass orders in terms of settlement whenever the suit is settled out of court.
- Recovery camps should be strengthened to suggest the borrowers regarding their problems and difficulties in repayment of loan. Recovery camps should be organised properly and the objective of the banks to conduct such camps should not be only the recovery but also to create awareness among borrowers about the importance of prompt repayment and also consequences of non repayment of dues.
- Banks can arrange for the periodical collection of dues from the business unit directly by sending banks staff. This may be helpful to collect the dues in time and reduction in creation of NPAs.
- Banks should recruit recovery agents and they must work according to the norms of RBI. Their services are essential to ascertain whereabouts of the borrowers and for enforcement of securities in a pleasant manner.
- Branch manager's efforts should be strengthened in case of overdue of loan instalements, rescheduling of outstanding loans/instalements in case of loans especially due from sincere and hardworking SSI borrowers and consideration must be given to rescheduling of loan only to the borrowers who fail to pay loan instalements due to the reasons beyond their control.
- Prominence must be given to periodical review of borrowers loan account so that these are completed before the expiry of the period of limitation. Irregular loan accounts must be closely monitored for evolving action plan to prevent their slippage

to the NPA category. Prompt repayment by the borrowers must be recognised and rewarded by way of relief in interest, which would act as motivational factor for repayment to other defaulters.

- Both borrowers and bankers agree that the quantum of loan sanctioned is found to be inadequate in terms of the requirements of the SMEs. There is a need for the review of the existing system of assessment of working capital. Credit risk in financing SSI sector seems to be higher because, there is lack of transparency and openness on the part of entrepreneurs. This also calls for strengthening efforts of the banks and the Government to educate the entrepreneurs.
- There is considerable delay between submission of loan application and sanctioning of loan - Delays are seen at every level of lending operations. Such levels include: submission of the loan application form, project formulation, project implementation, annual review and renewal of limits and rehabilitation of sick units. In addition, banks take the substantial time in offering regular services which include collection, remittance and other fee based services. Hence, the existing organizational structure in the banks needs a review to ensure prompt services.

  The government has to make sure that time-bound disposal of the cases is done mandatorily by adding the clause in the Act and making it a law. Even though the SARFAESI Act has mandated the Debt Recovery Tribunals to settle the Original Applications within six months, this is not obeyed strictly. Efforts have to be taken to ensure this.
- Information technology or Internet-enabled environment helps in fast and accurate decision-making by the SMEs due to increased mobility. The critical components before SMEs are speed of services, access to information, empowering employees in terms of skill and delivering highest valued services at competitive price. SMEs need IT-based solutions in terms of multi-tasking, expanding customer base, raising productivity, controlling cost, working remotely, fast and accurate decision-making and facilitating collaboration.
- NPA cells may be established at controlling offices to accelerate the recovery. Transparent compromise proposals and setting up of investment committees at different levels in the bank can result in prompt disposal of cases.
- Branch managers and concerned officials must make personal visit to the units and conduct face-to-face discussion with the beneficiary entrepreneurs about the problems

faced by the beneficiary entrepreneurs – By inspecting the unit the banker is able to see where exactly the problem persists - either production bottlenecks or income leakage or whether it is a case of willful default. During discussion with the borrower, the banker may come to know details relating to breakdown in plant and machinery, labour unrest, change in management, death of a key person, reconstitution of the firm, dispute among the partners etc. All these factors have a bearing on the functioning of the unit and on its financial status.

- Bankers must expedite the process of recovery through legal recourse – Since provision amount progressively increases with increase in time, it is necessary to take steps to recover dues either through persuasion or by legal recourse. A strategy of fixing a dead line for recovery may force the bank to either recover or shed the asset off the balance sheet. Banks may file suits promptly against wilful defaulters. Banks can take recourse under either a civil suit or the Special Recovery Acts passed by various states or under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. The bank should rigorously follow up the legal cases.
- All unviable accounts should be put under time-bound asset recovery drive and sale of assets to ARCs or under the SARFAESI Act, to protect the loss in economic value of the assets.
- Often projects get delayed or do not reach sufficient commercialisation due to factors beyond the control of promoters/ banks viz. regulatory, political and legal constraints like environment and other clearances, etc. As banks are taking increasingly larger exposures to infrastructure projects, they must conduct necessary sensitivity analysis and contingency planning while appraising the projects and build adequate safeguards against such external factors.
- Timely decision making is crucial to the success of any project. The appraisal, sanction and disbursement decisions should be made timely and fast. Similarly, additional limits/ concessions, if needed, should be sanctioned quickly in order to enable the business unit to smoothly tie over the problem.
- The existing structure for recovery of bank loans is not effective. The entire procedure drags on for years together; all the time bank funds being blocked and the defaulters are enjoying at somebody's cost. In the interest of the economy in general and banking industry in particular, a radical change in this field seems imperative.

- Bankers should involve themselves in the progress of the unit and must provide valuable suggestions whenever the units are faced with problems
- If all the parties involved in the lending process, the beneficiaries of loan, commercial banks and the government agencies realise their responsibilities and function properly there is no problem of recovery at all. Therefore all must be made to realise their responsibilities. Coordination among the commercial banks, the beneficiaries and government agencies is much needed to ensure timely and adequate finance, proper follow up and prompt repayment of loan.

14. DIRECTIONS FOR FURTHER RESEARCH:

The present research concentrated on Recovery Management of Commercial Bank Loans to Small Scale Industries- in Dakshina Kannada and Udupi Districts. While doing so the research carried out on in-depth analysis of the recovery management problems of commercial bank loans to SSIs. However, we still consider that there is scope for further research in this area. Some of the possible areas of research are presented out below.

1. A Study on various government sponsored schemes to MSMEs, its coverage and effectiveness.
2. Role and effectiveness of DRTs, and SARFAESI Act in recovery of loans from SSIs.
3. A Study on financing and recovery strategies of old and new generation private sector banks with special reference to MSMEs.
4. A study on Recovery strategies of Private and Public sector banks with special reference to advances to MSMEs.
5. Comparative study on NPAs of priority sector and Non priority sector advances
6. Study on Basel Norms , capital adequacy and provisioning norms
7. Study on role and functioning of DICs for the development of MSMEs
8. Study on the role of MSMEs in Export promotion , Employment and Income generation
9. Study on EDPs for the development of MSMEs
10. A study on financing facilities for entrepreneurs for development of MSMEs.

15. CONCLUSION:

Providing financial assistance to the needy is an essential function of a banker. By meeting the financial requirements of various segments of the society, banks contribute to the economic development of our nation. Among the various segments of the economy Small and Medium enterprises play a pivotal role in generating employment opportunities, contribution to production, exports and national income. In order to boost SMEs, banks have the moral responsibility to lend to this sector. The study of earlier literature reveals that around 40% of the bank loan flows towards SMEs. But at the same time it was found that majority of the commercial banks are experiencing the non recovery of loan sanctioned to SMEs. Recovery of debt is a difficult task and involves a lengthy process. The recovery process begins with issuing notices to the borrowers who failed to repay the loan instalments and ends with sale of property hypothecated and recovery of debt. Recovery of bank dues is made by legal and non legal measures. The legal measures include recovery of debt through DRTs, SARFAESI Act, Lok Adalaths, ARCs and the like. The non legal measures consist of the reminder notices, recovery camp, rehabilitation of sick units, restructuring of debt, compromise settlement, reschedulement, write-off, etc. The adoption of proper recovery methods depends upon the amount of loan, type of security offered, nature of default and the like. Whenever a banker takes a step to recover the dues, it is advisable to make the cost benefit analysis of recovery of dues.

Various schemes formulated by government for the development of MSMEs, must be implemented at the right time in the right spirit and direction. The same spirit which was attached to disburse the loans is not given to the recovery aspect. This has led to a state of affairs where the banks under pressure go on lending, but are neither able to have proper control nor exercise follow up measures to manage the credit portfolio. As a result diversion of funds and misutilisation of loan amount have become a common phenomenon. This added to the common difficulties in recovery, and has been responsible for a low recovery performance.

Prompt recovery of loan advanced by the banker is very much essential from the point of view of liquidity, security of the asset and also profitability. If the loans are not recovered recycling of loan becomes difficult. Besides, it will lead to increasing Non-Performing Assets, deterioration in the quality of loan assets, erosion of the assets and capital in the long run. The bankers resort to legal measures only when all other measures viz, personal contacts, pressurizing tactics, serving notices and attempts to compromises fail. Legal measures are

time consuming; take long time to get settled. Therefore, it is advisable on the part of the bankers to arrive at compromise/one time settlement. The enactment of SARFAESI Act, and setting up of Lok adalats are blessing in disguise for bankers and have made the banker's task of recovery easier by resorting to legal measures. Since the problem of recovery of loan is associated with many problems like diversion of funds, willful defaults, utilisation of loan for consumption and unproductive purpose, proper management of credit recovery is very much essential in commercial banks.

Government of India with its policy initiatives encourages the development of Small Scale industries from the point of the economic development of the country. SSI contributes to production activities, employment generation and export earnings. Government supports the SSIs through various schemes, financial support from banks and financial institutions. Various committees were constituted for the promotion of SSIs and to examine their financial problems under various five year plans. In spite of encouragement and support from the government many SSIs face the problem of finance and many banks are experiencing the problem of recovery. Various debt recovery mechanisms must be strengthened and financial support should be given to SSIs by following aggressive assessment methods. We have to learn from our past experience the mistakes committed. There is no meaning in committing the same mistakes that we committed in the past as far as recovery of bank loans to SSIs is concerned. This requires a strong will and commitment on the part of the government, banks, financial institutions and various agencies involved in the promotion of SSIs that the loan given must be recovered and it is not a charity.

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